



Office of Health Policy and Program Support

P.O. Box 720724

Sacramento, CA 94229-0724

Telecommunications Device for the Deaf, 1 (800) 735-2926; (916) 795-3240

Toll Free: (888) 225-7377 or 1 (888) CalPERS

FAX (916) 795-4105

April 22, 2008

AGENDA ITEM 3c

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Medicare Enrollment in the Basic Health Plan
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. BACKGROUND:**

At the March 18, 2008, Health Benefits Committee (HBC) meeting, staff presented information on the cost of CalPERS retirees aged 65 and older enrolled in CalPERS basic health plans, noting that the cost for these members is \$30 million annually, with Kaiser Permanente accounting for \$17 million, and Blue Shield and the self-funded plans accounting for the remainder. These amounts applied only to members who are not required to enroll in a Medicare health benefits plan pursuant to the Public Employees Medical and Hospital Care Act (PEMHCA) and its corresponding regulations. This month's agenda provides a more thorough investigation of the total number of retirees affected and total cost involved.

The California Public Employees' Retirement System (CalPERS) has 8,016 retirees aged 65 or older enrolled in a CalPERS basic health plan. CalPERS PPO basic plans have 3,400 retirees aged 65 or older (42 percent), the Kaiser basic plan has 2,796 retirees aged 65 or older (35 percent), and Blue Shield HMO basic health plan has 1,820 aged 65 or older (23 percent).

These retirees enroll in basic plans because they either (a) have recently turned 65 and are in the process of enrolling in Medicare and moving to Medicare plans, (b) do not meet Medicare plan enrollment requirements, or (c) are not required to enroll in a Medicare health benefits plan pursuant to PEMHCA and its corresponding regulations.

Staff estimates the cost of retirees aged 65 or older enrolled in basic plans at \$46.2 million annually. Retirees enrolled in the Kaiser basic plan account for \$20.4 million (44 percent), and PPO and Blue Shield HMO retirees combined account for \$25.8 million (56 percent).

This agenda item addresses the HBC's concerns regarding how Kaiser calculates its basic health plan premiums based on the enrollment of CalPERS' retirees aged 65 or older, and presents a cost/benefit analysis to determine if it is cost-effective or cost-prohibitive to move all retirees currently in our basic health plans to Medicare plans.

V. ANALYSIS:

Basic Rate Calculations

Kaiser

Kaiser creates its basic rate using cost and utilization trends captured in its periodic utilization reports, and does not include the cost experience for "retirees aged 65 or older in the basic plan" in its calculation. Kaiser accounts for the cost of this population by adding a surcharge to its basic rate. Kaiser calculates the surcharge as follows: the difference between (1) what the Centers for Medicare and Medicaid Services (CMS) and CalPERS would have paid for these members if they were enrolled in its senior advantage plan, and, (2) the basic premium received for these members.

Example (for illustrative purpose only):

Kaiser Plan	CalPERS Premium	CMS Supplement	Received by Kaiser
Senior Advantage	\$270	\$700	\$970
Basic	\$470	\$0	\$470
Surcharge:			\$500

Kaiser applies the surcharge to all three tiers in its basic plan: single party, two party and family.

In 2000, the CalPERS Office of Audit Services (OFAS) conducted a review of Kaiser's surcharges for the 2001 Rate Renewal period and verified that:

- The logic used to calculate rates ensured an accurate compilation of eligible members. Kaiser excluded members aged 65 or older from the Basic plan rate calculations, except for working members aged 65 or older who may remain in the Basic plan under federal legislation¹.
- The membership data used to calculate individual Medicare surcharges was accurate.

¹ Federal TEFRA (Tax Equity and Fiscal Responsibility Act of 1982), DEFRA (Deficit Reduction Act of 1984) and COBRA (Consolidated Omnibus Budget Reconciliation Act) laws prohibit active employees and/or their dependents aged 65 or older from enrolling in Medicare plans.

In 2008, using the Health Care Decision Support System (HCDSS), staff verified that Kaiser does not include claims experience for the aged 65 or older retirees in its basic plan either under its old Rate Adjustment Factor (RAF) system or its new National Pricing System. Under the 2005 National Pricing system, we compared HCDSS data to Kaiser's Periodic Utilization Report and backed out the aged 65 or older retiree cost information. Staff found the Kaiser Periodic Utilization Report (PUR) matched the HCDSS report.

PPOs and Blue Shield HMO

Unlike Kaiser, the calculation of basic plan premiums for our PPOs and Blue Shield's HMO basic plans includes the cost experience of retired enrollees aged 65 or older. CalPERS pays 100 percent of the claims costs for these basic plan members when we do not know their Medicare eligibility, and pays the uncovered portion of claims costs when we do know the member is enrolled in Part A or Part B.

Cost/Benefit Analysis

To assess the financial impact of moving retirees in a basic health plan to a Medicare plan, staff used February 2008 eligibility information combined with 2006 cost data (calendar year 2007 claims data is not complete.)

Calculation of Costs:

For all CalPERS health plans, enrolling retirees in Medicare requires the member to have both Part A and Part B. If we move eligible retirees to Medicare plans, the costs include: the penalties for late enrollment in Part A and Part B, and the payment of the Part A premium.

Members not currently enrolled in Part B will have to start paying the Part B premium, though this is often covered by the 100/90 formula for state retirees.

Calculation of Savings:

For all CalPERS health plans, savings accrue to the basic plan premiums due to the removal of high cost members from the risk pool. In addition, moving retirees aged 65 or older from a basic plan to a Medicare plan impacts the basic cost trend which should reflect favorably in future rates.

For retirees aged 65 or older who are moved from a basic plan to a Medicare plan, additional savings result because Medicare premiums are much lower than basic plan premiums.

Results:

Savings

Basic plan premium savings	\$46.2 million	
Difference between Basic and Medicare plan premiums	\$13.6 million	
Subtotal		\$59.8 million

Costs

Part A Premium	-\$31.8 million	
Part A Penalty	-\$3.2 million	
Part B Penalty	-\$8.2 million	
Part B Premium	-\$6.8 million	
Subtotal		-\$50.0 million

<u>Net Savings</u>	<u>\$9.8 million</u>
--------------------	----------------------

Next Steps

If the committee decides to pursue transferring Medicare-age retirees in basic plans to Medicare plans, the next steps include:

1. Investigating state and public agency funding mechanisms for Part A and Part B payments to Medicare (premiums and penalties)
2. Determining which groups to transfer (e.g., retirees without Part A, retirees not currently required to enroll in a Medicare plan pursuant to PEMHCA and its corresponding regulations)
3. Identifying necessary legislative, regulatory, or policy changes required
4. Considering implementation for the 2010 rate year

VI. STRATEGIC PLAN:

This item supports the CalPERS Strategic Plan, Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

This is an information item only.

Sandra Felderstein, Chief
Office of Health Policy and Program Support

Gregory A. Franklin
Assistant Executive Officer
Health Benefits Branch